

Knowles Proposes Use of Alaska Railroad Bonding to Cut Pipeline Costs

By the OGJ Online Staff

HOUSTON, Feb. 7 -- Alaska Gov. Tony Knowles proposed Thursday to use the bonding authority of the Alaska Railroad Corp. as a creative financing option to lower the cost of the Alaska Highway natural gas pipeline by \$1 billion, enough to make it economical.

The railroad's ability to issue tax-exempt bonds to finance industrial development was approved by Congress when it authorized the transfer of Alaska Railroad from federal to state ownership in 1983. Congress reaffirmed that authority when it passed the Tax Reform Act of 1986.

Although the railroad would issue the bonds, neither it nor the state would own the proposed gas pipeline or be liable for its debt. That responsibility would fall on the private companies that build, own, and operate the pipeline, officials said.

"You see where the tracks are leading. Tax-exempt financing saves money," said Knowles. "Congress has created and protected this opportunity for the railroad. It's on the books and ready to go," he said. "It could save gas line developers as much as \$1 billion in financing costs. By any measure, this is a significant step forward in Alaskans' effort to finance and construct what would be America's largest privately funded construction project."

Knowles said, "I'll be prepared to affirm the state's support of such a package by sending to the legislature a bill to provide the railroad with state authority to issue the bonds to get the gas line built."

Similar "conduit financing" arrangements have worked in the past, he said.

The city of Valdez issued bonds on behalf of owners of the Trans-Alaska oil pipeline to construct the tanker terminal at that location during the 1970s. The Alaska Industrial Development and Export Authority financed construction of a solid waste disposal facility at the Fort Knox Gold Mine near Fairbanks, Alas., and the purchase of a hydroelectric project in Juneau, Alas., from the federal government.

"The stakes are high, but the opportunities are great," said Knowles. "Alaska can deliver as much as 6 bcf/d of natural gas to the nation. This is as much as 8% of daily national demand for natural gas and is a steady, reliable source of domestically produced energy that is large enough to battle future price spikes.

"The long-term economical impact of this project is phenomenal and will generate tens of thousands of jobs nationwide, including jobs for Alaskans and revenues for the state."

In Washington, DC, Lt. Gov. Fran Ulmer briefed key US Dept. of Energy officials on the Alaska gas line issues and stressed the need for state and federal agencies to work together on financing and streamlining the permitting process.

Last week, Wilson L. Condon, Alaska's Revenue Department commissioner, reported to Gov. Knowles and other state officials that Alaska is too "cash poor" to buy in as part owner of a proposed pipeline to transport North Slope natural gas to markets in the lower 48 states (OGJ Online, Feb. 4, 2002).

Even if the state could afford it to help fund the project, Condon said, it "could put the state at financial risk if there are construction overruns, delays in completion of the project, unbudgeted calls for additional capital, or volatile natural gas market conditions."

Knowles' newest proposal for using the railroad's bonding authority apparently would eliminate that risk.

"Estimates prepared by Goldman Sachs and the Department of Revenue suggest that such a financing plan could save the owners of the gas line more than \$1 billion in today's dollars over the life of the project," Knowles said.

Knowles and others favor a pipeline route along the Alaskan Highway that would keep a large portion of the construction within the state. But several industry representatives have been leaning toward a less expensive alternative Arctic offshore route from Alaska to Canada.